

NORTHERN ILLINOIS GAS COMPANY

d/b/a NICOR GAS COMPANY

DIRECT TESTIMONY OF

THOMAS M. MORETTI

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 01-0705

ILLINOIS
COMMERCE COMMISSION

Jan 2 11 16 AM '02

CHIEF CLERK'S OFFICE

1 Q. Please state your name and business address.

2 A. Thomas M. Moretti, 1844 Ferry Road, Naperville, Illinois 60563.

3 Q. By whom are you employed?

4 A. Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas"
5 or "Company").

6 Q. What position do you hold with Nicor Gas?

7 A. I am Coordinator Rate Administration, Economics and Rates.

8 Q. Please summarize your educational background and your experience in
9 the public utility business.

10 A. I hold the degree of Bachelor of Arts, majoring in Political Science from
11 Lewis University. I also have a Master's degree in Business
12 Administration from Benedictine University. I have been employed by
13 Nicor Gas since 1979. From 1979 until 1998, I held positions in
14 Auditing, Accounting, Customer Service, Human Resources and Credit.
15 I assumed my present responsibilities in February, 1998.

16 Q. What is the purpose of your testimony in this proceeding?

17 A. The purpose of my testimony in this case is to explain Nicor Gas'
18 reconciliation of Gas Supply Cost ("GSC") revenues collected with its
19 actual cost of gas distributed, to the extent that such costs are

20 recoverable, as recorded on the books of the Company for the 12 months
21 ended December 31, 2001. My testimony and exhibits are in response to
22 the Commission's Order Commencing Reconciliation Proceedings
23 entered November 7, 2001, in Docket No. 01-0705.

24 Q. Was notice given to the public relative to the filing of the testimony and
25 exhibits in this docket?

26 A. Yes. Pursuant to the requirements set forth in the Commission's Order,
27 and in accordance with the requirements of 83 Illinois Administrative Code
28 Part 255, we have posted a printed "Public Notice" card with respect to
29 this case in the business offices of the Company, and a similar public
30 notice was published in newspapers of general circulation in Nicor Gas'
31 service territory. A copy of the printed card and affidavits of publication
32 will be presented during the hearings in this proceeding. In addition,
33 copies of Nicor Gas' testimony and exhibits are on file and available for
34 public inspection in each of the Company's business offices.

35 Q. Please generally describe Nicor Gas' Rider 6, Gas Supply Cost.

36 A. Rider 6 prescribes the method of computing charges which reflect the cost
37 of gas charged by the Company's suppliers for quantities of gas purchased,
38 transported, stored, and sold. The purpose and intent of Rider 6 is to
39 promptly pass along to customers Nicor Gas' net gas supply cost, without
40 markup or profit.

41 Q. Does Rider 6 comply with the 83 Ill. Adm. Code Section 525 Purchased
42 Gas Adjustment Clause requirements?

43 A. Yes.

44 Q. Has Nicor Gas filed monthly purchased gas adjustment calculations for
45 2001 with the Commission?

46 A. Yes. In accordance with the provisions of Rider 6, relating to changes in
47 the adjustment, each time the GSC charges were revised Nicor Gas
48 submitted to the Commission for verification a sheet supplemental to the
49 Company's rate schedule, specifying the revised amount of the
50 adjustment, along with a statement of details and data showing Nicor
51 Gas' calculations. The filings were mailed on or before the twentieth
52 day of the month prior to the effective month in which the new GSC
53 charges would affect billing to the Company's customers. However,
54 Nicor Gas Company did refile the GSC charge five times in 2001 to
55 reflect the change in market price. The month's affected were January,
56 July, September, October and December.

57 Q. How are GSC charges applied in billing the Company's customers?

58 A. Changes in the GSC charges become effective on the first day of a
59 calendar month. However, as a practical matter, Nicor Gas bills all
60 customers on the basis of reading day cycles which cover various
61 monthly time periods. Therefore, the Company prorates the effective
62 amounts of the Rider 6 adjustment according to the number of days each
63 such GSC charge was in effect during each customer's billing period.
64 The prorated level of GSC charges is shown on the customer's bill.

65 Q. Please describe Nicor Gas' proration procedure.

66 A. For each customer, the meter reading date is the controlling factor. If,
67 for example, a customer's meter is read on January 15th, and had
68 previously been read on December 16, we assume that 14/30 of the
69 usage was subject to the GSC charges effective in January and 16/30
70 subject to the charges during December. This system of prorating
71 charges has been used by the Company for many years and is embodied
72 in the revenue calculations reflected in the exhibits to this testimony.

73 Q. Does proration of the GSC charges complicate a reconciliation of
74 recovered revenues with allowable recoverable gas costs?

75 A. No. The annual reconciliation method is prescribed in the Purchased
76 Gas Adjustment Clause. The revenues are simply those that are recorded
77 for the year.

78 Q. Please describe the gas costs recoverable through Rider 6.

79 A. The costs incurred by the Company and recovered through Rider 6 are:
80 (1) gas costs based on volumes of gas purchased through suppliers,
81 generally referred to as Commodity Gas Costs; and (2) gas costs other
82 than those defined as commodity related, generally referred to as
83 Non-Commodity Gas Costs.

84 Q. Please describe the charges used to recover Nicor Gas' costs through
85 Rider 6.

86 A. Four gas cost charges are employed. These charges are described in
87 Exhibit A. The Commodity Gas Cost charge ("CGC") reflects
88 commodity costs. It is applied to all therms of Company-supplied gas.

89 Non-commodity gas costs are recovered through either the
90 Non-Commodity Gas Cost charge ("NCGC") or the Demand Gas Cost
91 charge ("DGC"). The Gas Cost charge ("GC") is the sum of the CGC
92 and NCGC, and is applied to most sales service rates (other than Rates 6
93 and 7). The DGC is applicable as a backup charge to customers on
94 Nicor Gas' system that have elected to transport their own gas supplies,
95 but wish to maintain the availability of Company-supplied gas, or
96 customers receiving sales service under Rate 6 or Rate 7. Specific
97 application of these charges varies depending on a customer's rate and
98 elected level of backup service. The charges may also apply at the
99 calculated level (such as the CGC and the NCGC) or at a percentage of
100 the calculated level (such as the DGC). In addition, charges may apply
101 to gas supplied by Nicor Gas, customer-owned use, total throughput, or
102 a percentage of the customer Maximum Daily Contract Quantity. Since
103 August 15, 1997, authorized, requested authorized, and unauthorized
104 therms sold to transportation customers are priced at the higher of Nicor
105 Gas' currently effective GC or the Market Price, which is defined in the
106 Company's Terms and Conditions as the index price for deliveries to the
107 Chicago City Gate as published in Gas Daily. In addition, there is a
108 fifth charge called the Aggregator Balance Service Charge ("ABSC")
109 which is a non-commodity related charge applied to customers
110 participating in the Customer Select Pilot Program. This charge is
111 explained in more detail later in my testimony.

112 Q. Is each cost category reconciled?

113 A. Yes. Pursuant to tariffs approved in Docket No. 88-0277 and filed in
114 compliance with Docket No. 94-0403, revenues recovered under the
115 CGC are reconciled with recoverable commodity gas costs; and revenues
116 recovered under the DGC or NCGC are reconciled with recoverable
117 non-commodity gas costs.

118 Q. Was an annual reconciliation statement for 2001 filed in accordance with
119 the Purchased Gas Adjustment Clause?

120 A. Yes. The annual statement for 2001, included as Exhibit B, is being
121 filed concurrent with this testimony on April 3, 2002.

122 Q. Please briefly describe Exhibit B.

123 A. Page 1 of Exhibit B is the transmittal letter for the 2001 Reconciliation
124 Balance filing. Page 2 of Exhibit B is a summary calculation of
125 the "Reconciliation Balance for the Reconciliation Period Ended
126 December 31, 2001". This statement compares the total revenues
127 recorded under the various charges of the Company's Rider 6 provisions,
128 with the appropriate category of recoverable cost of gas distributed, to
129 arrive at the balance to be refunded or recovered under the two
130 individual reconciliation balances. For the year 2001, the total net
131 balance to be refunded was \$114,770,082. This amount is the sum of
132 the two individual reconciliations, the commodity related balance to be
133 refunded of \$112,404,778 and the non-commodity related balance to be

134 refunded of \$2,365,304. Page 3 of Exhibit B contains a detailed
135 explanation of the summary.

136 Q. Please describe Page 4 of Exhibit B.

137 A. Page 4 of Exhibit B reflects the monthly amounts of recoverable
138 commodity-related gas costs and revenues which were recorded under
139 the Company's CGC pursuant to the Rider 6 provision as in effect for
140 the 2001 reconciliation year.

141 Q. Has the over-recovered commodity related Reconciliation Balance of
142 \$112,404,778 been reflected in the CGC charges?

143 A. Yes. The over-recovered amount has been reflected in the CGC charges
144 effective for the months of January, February, March, and April, 2002.

145 Q. Please describe Page 5 of Exhibit B.

146 A. Page 5 of Exhibit B reflects the monthly amounts of recoverable
147 non-commodity related gas costs and revenues which were recorded
148 under the Company's NCGC and DGC pursuant to the Rider 6 provision
149 as in effect for the 2001 reconciliation year.

150 Q. Has the balance to be refunded of \$2,365,304 been reflected in the DGC
151 and NCGC charges?

152 A. Yes. The over-recovered amount has been reflected in the DGC and
153 NCGC charges effective for the months of January and February, 2002.

154 Q. Was the cost of gas used by the Company reflected in the amount to be
155 recovered under either of the Reconciliation Balances?

156 A. No. Such costs are not recoverable through the GSC mechanism.

157 Q. Please describe Page 6 of Exhibit B.

158 A. Page 6 summarizes the information included in the Company's monthly
159 filings for commodity-related gas costs and recoveries through the CGC
160 charge. This information is presented pursuant to the filing requirements
161 included in the Order commencing this proceeding.

162 Q. Is the "Commodity Related Over/Under Recovery" on Page 4 of Exhibit
163 B the same as the "Under/(Over) Recovery Balance at 12/31/01" on
164 Page 6 of Exhibit B?

165 A. No. The difference of \$376,230 is due to interest on unamortized
166 balances, which was included in the monthly filings effective November
167 1, 2001, and which will not be reflected as an adjustment to commodity
168 related recoveries until January, 2002. Consequently, this results in a
169 timing difference between the reconciliation balance and the monthly
170 filings.

171 Q. Please describe Page 7 of Exhibit B.

172 A. Page 7 also summarizes information included in the Company's monthly
173 filings, but pertains to non-commodity gas costs and recoveries through
174 the NCGC and the DGC charges.

175 Q. Is the "Non-Commodity Related Over/Under Recovery" on Page 5 of
176 Exhibit B the same as the "Under/(Over) Recovery Balance at 12/31/01"
177 on Page 7 of Exhibit B?

178 A. Yes. However, a difference of \$8 is due to rounding.

179 Q. In the period covered by this reconciliation, were any FERC Order No.
180 636 transition costs billed to Nicor Gas?

181 A. Yes. In 2001, total FERC Order No. 636 transition costs resulted in a
182 credit to the Company of \$654,048. This amount was entirely non-
183 commodity related credits distributed through the NCGC and DGC
184 charges.

185 Q. Were FERC Order No. 636 transition credits distributed exclusively
186 through Rider 6?

187 A. Yes. Nicor Gas refunded these credits to both sales and transportation
188 customers as directed by the Commission in Docket No. 93-0328.

189 Q. What amount was refunded through the Transition Surcharge with
190 respect to FERC Order No. 636 transition costs?

191 A. The total refunded through the Transition Surcharge and credited to the
192 CGC was \$30 as shown on Page 4 of Exhibit B. The amount refunded
193 reflects billing adjustments from previous years.

194 Q. Please explain the revenue item, on Page 4 of Exhibit B, entitled "Excess
195 Storage Charges".

196 A. Pursuant to tariffs approved in Docket No. 88-0277 and revised in
197 Docket No. 95-0219, Nicor Gas' transportation service customers are
198 allowed to store certain volumes of customer-owned gas in Nicor Gas'
199 storage facilities. When a customer's actual storage balance is in excess
200 of the allowed storage balance, the excess storage balance volume is
201 subject to an Excess Storage Charge of \$.10 per therm. All such Excess

202 Storage Charge revenue billed to customers is refunded through the
203 Commodity Related Reconciliation Balance, in compliance with the
204 Commission's Orders in Docket Nos. 88-0277 and 95-0219.

205 Q. Please explain the revenue item, on Page 4 of Exhibit B, entitled
206 "Storage Services".

207 A. Pursuant to the Commission's Order in Docket No. 95-0219, Nicor Gas
208 includes revenue received from the sale of storage services to off-system
209 customers as a credit to Rider 6, through the commodity-related
210 Reconciliation Balance. The item entitled "Storage Services" contains
211 the revenue credits, equal to revenues billed for off-system storage
212 services in 2001.

213 Q. Please explain the revenue item, also on Page 4 of Exhibit B, titled
214 "Unauthorized Use Charges".

215 A. Certain of Nicor Gas' transportation service customers have elected the
216 option of being served with less than full backup service. When a
217 customer uses Company-supplied gas in excess of amounts available
218 under the applicable service contract, and the use was unauthorized as
219 determined in the Company's tariff, that use is subject to an
220 Unauthorized Use Charge.

221 Q. Please describe that charge.

222 A. The Unauthorized Use Charges are comprised of the (1) the higher of the
223 Company's Gas Cost ("GC") or the Market Price, which is defined in
224 Nicor Gas' Terms and Conditions as index price for deliveries to the

225 Chicago City Gate as published in Gas Daily; (2) the distribution charges
226 as specified in the customer's gas service rate; and (3) \$6 for each therm
227 of Unauthorized Use. The \$6 per therm portion of the Unauthorized Use
228 Charges is refunded through the Commodity Related Reconciliation
229 Balance.

230 Q. Were the Unauthorized Use Charges and refunding of the charges
231 approved by the Commission?

232 A. Yes. Both were approved by the Commission in Docket Nos. 88-0277
233 and 95-0219.

234 Q. Please explain the revenue item shown on Exhibit B, Page 4, titled
235 "Rider 5 Revenues."

236 A. Rider 5, Storage Service Cost Recovery, was also approved by the
237 Commission in Docket No. 95-0219. Rider 5 ensures recovery of the
238 Company's storage related investments, following elections made by
239 transportation customers. The cost of storage investment not elected by
240 transportation customers is recovered from sales customers through
241 Rider 5, which is added to and included as part of the monthly CGC
242 charge for billing purposes. The adjustment reflected on Exhibit B for
243 Rider 5 eliminates this revenue from the Reconciliation Balance, since it
244 is unrelated to gas costs incurred.

245 Q. Please explain the revenue item shown on Exhibit B, Page 5, titled
246 "Aggregator Balance Service Charge."

247 A. In 1998, pursuant to Rider 15, the Company began a customer choice
248 pilot program called Customer Select. Under the provisions of the pilot
249 program, customers are able to choose gas suppliers other than Nicor
250 Gas. The program allows participating suppliers to aggregate deliveries
251 made on behalf of participating customers, in compliance with Rider 16,
252 Supplier Aggregation Service. The Aggregator Balance Service Charge
253 ("ABSC") is a non-commodity related charge applied on a per therm
254 basis to all deliveries made by the Company to the facilities of customers
255 participating in the pilot program. Under Rider 16, suppliers are
256 responsible for providing 28% of the group's maximum daily usage. The
257 ABSC, which is billed to the suppliers, represents the recovery of non-
258 commodity costs for the remaining portion of the group's maximum
259 daily use provided by the Company.

260 Q. Were the ABSC costs recovered exclusively through Rider 6?

261 A. Yes. Nicor Gas recovered these costs from the supplier aggregators
262 under the terms of Rider 6. The ABSC was applied to deliveries to
263 customers participating in the Customer Select program and billed to the
264 supplier aggregators. Revenue arising from application of the ABSC
265 was credited to the non-commodity related gas costs, thereby reducing
266 the NCGC.

267 Q. Pages 4 and 5 of Exhibit B reflect line items titled "Amortization of
268 Refunds" and "Amortization of Previous Years RB." What do these line
269 items represent?

270 A. Pursuant to the Commission's Order in Docket No. 94-0403, 83 Ill.
271 Adm. Code 525.50 (b) allows the Company to amortize an Adjustment
272 Factor ("Factor A") over a period longer than the Base Period, as
273 defined in 83 Ill. Adm. Code 525.20, but not to exceed 12 months.
274 These line items represent the amortization of pipeline and storage
275 refunds, and of prior over or under collected gas costs. Prior to the
276 Commission's Order, amortization expense was reflected outside the
277 calculation of the Reconciliation Balance.

278 Q. Please explain the revenue item titled "Interest on Refunds," as shown
279 on Page 4 of Exhibit B.

280 A. Interest is calculated on the unamortized balances related to the
281 amortization expenses described above. Per 83 Ill. Adm. Code 525.50
282 (b), the Company computes the associated carrying charge on
283 unamortized refunds and over/under collections, in effect at the time the
284 amortization is initiated, based on the rate established under 83 Ill. Adm.
285 Code 280.70 (e) (1). Interest is included, through Factor A, with the
286 CGC, NCGC, and DGC charges, as applicable.

287 Q. What type of review is performed in conjunction with the Company's
288 Annual Reconciliation Filing with the Commission?

289 A. The Annual Reconciliation Filing is reviewed by Arthur Andersen LLP,
290 the Company's independent public accountants. Their report is included
291 as Page 8 of Exhibit B. The reconciliation itself is prepared by Nicor
292 Gas employees from several departments.

293 Q. What type of review procedure is in place for the monthly filings?

294 A. The inputs for the monthly GSC calculation are compared to similar
295 inputs to the Company's forecasting model to insure that proper charges
296 and volumes are used.

297 Q. Please describe the procedure used to prepare the Company's monthly
298 GSC filings.

299 A. The Rate, Supply, Supply Accounting and Forecasting Departments
300 contribute to preparation of the monthly filing. These departments are
301 familiar with the terms and provisions of Rider 6, and understand which
302 costs are recoverable through the GSC. The Rate Department prepares
303 the final document filed with the Commission. Forecasting, Supply and
304 Supply Accounting are involved in preparation of the documents used to
305 support the filing.

306 Q. How do these departments provide a check on the accuracy of the
307 monthly filings?

308 A. These departments must be in agreement with the treatment of costs in
309 the monthly GSC filing.

310 Q. What other review is performed with regard to monthly filings?

311 A. The Company's Internal Auditing Department, on an annual basis,
312 reviews a monthly filing, source documents and a copy of Rider 6 as in
313 effect at the time of the filing. This review is designed to assure that
314 only appropriate costs were included in the filing, thereby providing a

315 further check on the inter-departmental review that I have previously
316 described.

317 Q. Does this conclude your direct testimony?

318 A. Yes.